

Message Text

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PAGE 01 CAIRO 07521 251630Z

43

ACTION EB-11

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SUBJ: EGYPT AND THE IMF

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1. AT THE END OF HIS STAY IN CAIRO LAST AUGUST, IMF REP DICKIE TOLD US THAT HE HAD SUCCEEDED IN SETTING IN MOTION THE SERIES OF STUDIES THAT WOULD BE REQUIRED TO PROVIDE A BASIS FOR A \$100 MILLION IMF STANDBY AGREEMENT WITH EGYPT(REFTEL). THIS WAS THE SECOND AND MORE IMPORTANT OF THE TWO TASKS HE HAD BEEN SENT TO ACCOMPLISH (THE OTHER WAS TO ASSIST IN PREPARING THE PAPERS FOR A FIRST CREDIT TRANCHE OF SDR 40 MILLION), AND HE FELT FAIRLY CERTAIN THAT HE HAD OVERCOME THE INITIAL GOE RELUCTANCE TO PREPARE THE NECESSARY DATA AND STATISTICS. THE STUDIES WERE TO HAVE BEEN COMPLETED THIS FALL.

2. THE EMBASSY DID NOT FULLY SHARE DICKIE'S OPTIMISM, ALTHOUGH WE AGREED WITH THE MEANS AS WELL AS THE OBJECTIVES. IN ADDITION TO THE NORMAL BUREAUCRATIC DELAYS THAT COULD BE EXPECTED, AS WELL AS THE PROBLEMS RELATED TO THE COMPILATION OF MEANINGFUL STATISTICS IN EGYPT, THERE WAS A FEELING THAT SOME OF THE STEPS URGED BY THE IMF (AND THE IBRD) WOULD POSE DOMESTIC
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PAGE 02 CAIRO 07521 251630Z

POLITICAL DIFFICULTIES THAT THE GOE WOULD BE UNWILLING

TO FACE AT THIS TIME, E.G. REDUCTIONS IN SUBSIDIES FOR CONSUMER COMMODITIES.

3. IN RECENT WEEKS, CONSIDERABLE ATTENTION HAS BEEN FOCUSED ON THE GROWING CONCERN AND PUBLIC OUTCRY OVER RISING PRICES, LEADING THE GOVERNMENT TO REAFFIRM ITS COMMITMENT TO THE MAINTENANCE-AND PERHAPS EVEN TO AN INCREASE IN THE ALREADY MASSIVE SUBSIDIES PROVIDED FOR BASIC ITEMS (BREAD, SUGAR, TEA, OIL, ETC.). IN ADDITION, STATEMENTS HAVE BEEN MADE RECENTLY WHICH INDICATE THAT THERE IS A POSSIBILITY THAT ADDITIONAL ITEMS MIGHT BE ADDED TO THE LIST, AS PART OF THE GOE'S POLICY OF LIGHTENING THE BURDEN ON THE PEOPLE RESULTING FROM PAST POLICIES.

4. WE HAVE NOW LEARNED THAT ONLY "A FEW" OF THE STUDIES REQUESTED BY THE IMF HAVE BEEN STARTED BY THE ARAB AND INTERNATIONAL ECONOMIC COOPERATION AGENCY, WHICH HAD BEEN CHARGED WITH RESPONSIBILITY FOR THE WORK. RAFIK SUWEILAM, UNDERSECRETARY TO THAER AMIN, THE AGENCY'S CHAIRMAN, AND THE MAN HANDLING RELATIONS WITH MULTILATERAL DONORS, SAYS THAT THERE ARE NO PLANS AT PRESENT TO BEGIN THE OTHER DUE TO THE PRESSURE OF WORK AT THE AGENCY. THEY HAVE NOT BEEN FORGOTTEN, THEY WILL JUST HAVE TO WAIT UNTIL ATTENTION CAN BE DEVOTED TO THEM.

5. COMMENT: SINCE THE BASIC DECISION HAVE REPORTEDLY ALREADY BEEN MADE FOR THE INTERIM DEVELOPMENT PLAN, ENDING DECEMBER 31, 1975, IT IS FAR TOO LATE NOW TO INCLUDE THE BUDGETARY EFFECTS THAT WOULD BE REQUIRED FOR THE IMF PROGRAM, EVEN IF THEY WERE PALATABLE. (THIS WAS TO HAVE BEEN ONE OF THE GOALS OF HAVING THE STUDIES MADE PROMPTLY.) WHAT EFFECT THIS WILL HAVE ON THE WILLINGNESS OF THE IMF TO AGREE TO A STANDBY IS DIFFICULT TO FORECAST, BUT WE HAVE THE IMPRESSION THAT THE ORGANIZATION IS NOT QUITE HARD-HEADED AS THE BANK. A CONVINCING CASE CAN BE MADE FOR THE NEED TO CONTINUE SUBSIDIES IN THE SHORT RUN AT LEAST, WHILE SADAT ATTEMPTS TO GET THE COUNTRY ON ITS FEET ECONOMICALLY. IF THE IMF ACCEPTS THE OVERRIDING POLITICAL REQUIREMENTS, AND ACCEPTS LIMITED OFFICIAL USE

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PAGE 03 CAIRO 07521 251630Z

ASSURANCES OF THE GOE THAT THE PROPER STEPS WILL BE TAKEN AS SOON AS THEY ARE FEASIBLE, PERHAPS A STANDBY WILL STILL BE AVAILABLE. WASHINGTON'S COMMENTS WOULD BE APPRECIATED.
EILTS

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